

CALIFORNIA CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY



2001 ANNUAL REPORT

The California Consumer Power and Conservation Financing Authority (CPA) grew out of disastrous energy conditions which caused Californians to think twice about turning on a switch to light their homes, businesses and schools. High prices and scarcity of power drove public officials to act quickly in finding a solution to the energy crisis. During intense executive and legislative activity to restore stability to the energy market, the CPA was envisioned to serve as a vehicle in acquiring additional power to meet the energy needs of California's consumers and to provide insurance for the State by securing a sufficient reserve of power.

As a start up agency, the CPA is authorized to issue up to \$5 billion in revenue bonds to finance energy projects and conservation programs. On August 13, 2001 the CPA statute went into effect and by Labor Day the CPA's offices opened to a market ready to do business as more than 60 proposals from renewable and peaking generation developers were submitted for review.

One of the first orders of business for the CPA's Board of Directors (Board) was the consideration and adoption of a strict code of ethics that included requirements set by the Fair Political Practices Commission and the Political Reform Act on disclosure, filings of economic interest and rules on ex parte communication with financially interested parties. In its work with energy developers, the CPA routinely prepares a "Restricted Communications" report that is submitted to members of the Board at every meeting. Under CPA's code of ethics, Board members and staff are prohibited from communicating on matters relating to the contract or selections process of a party financially interested in an award of any contract. This list is updated with the names of all parties who have bids pending or are involved in contract solicitations, negotiations or review.

The Board, meeting every two weeks, has also moved quickly to approve the hiring of executive staff and to pursue procurement of reserve resources from a variety of suppliers including renewable energy and conservation.

The CPA concludes this year with a clearer sense of its mission in obtaining a reliable electricity reserve and ensuring Californians sufficient supply at reasonable prices through aggressive conservation and far greater use of renewable energy while contributing to cleaner air, climate control and a better environment. As prescribed by Public Utilities Code (PUC) Section 3369, on February 15, 2002, the CPA will submit to the Governor and Legislature a blueprint for a new energy vision for California – one that is cleaner to the air and water, safer to the security of this state and a catalyst for continued economic growth and development.

This aim of the report is to provide to the Governor, the Chair of the Joint Legislative Budget Committee and Chairs of the Senate and Assembly Fiscal Committee a report of CPA activities and expenditures as prescribed by Public Utilities Code Section 3346.

ADMINISTRATIVE ACTIVITIES

As with any new enterprise, the initial charge was to put together the CPA's executive team and organizational structure to support the activities of the CPA. The team includes a chief executive officer, general counsel and financial advisor with extensive public and private sector experience in energy. The CPA will continue developing its organizational structure and hiring staff through the first quarter of 2002, as well as working to develop operating protocols, conservation financing opportunities and coordinating with sister agencies on energy procurement needs.

The CPA received a \$10 million loan for start-up purposes and has submitted its budget proposal to the Department of Finance and the Joint Legislative Budget Committee. Attached is the Expenditures Report as prescribed by PUC Section 3346. The CPA anticipates submitting a subsequent budget request once it has completed the Energy Resource Investment Plan by February 15, 2002.

The CPA participated in its first legislative hearing on November 26, 2001 with the Joint Legislative Audit Committee to review how the CPA's current activities comport with legislative intent of SB6X. The informational hearing was an important exercise in the Legislature's review of the CPA's activities and served to be helpful and affirmative in its assessment of the CPA's statutory mandate.

THE ENERGY RESOURCE INVESTMENT PLAN

In November, the CPA held a two-day weekend work session to discuss both a short-term and long-term strategy for developing the Energy Resource Investment Plan (ERIP). The session was structured to solicit input from technical experts, industry representatives, interest groups and members of the public. The CPA staff and Board of Directors heard presentations from representatives of the California Energy Commission (CEC), California Public Utilities Commission (CPUC), California Air Resources Board (CARB), the Governor's Office of Planning and Research (OPR), and California Independent System Operator (CAISO). In addition, 21 presenters responded to a request for qualifications (RFQ) that was released prior to the work session. The RFQ asked presenters to provide their qualifications in specific areas relative to their expertise in renewable technologies, electricity and natural gas supply and energy market analyses. Prior to the work session, a draft outline of the ERIP was released for additional public review and comment.

The CPA held briefings with Legislative staff as an opportunity to give a status report on the development of the ERIP. Continued communication with Legislative staff has served to guide the CPA on key portions of the ERIP.

Since the work session, the CPA has retained individuals with targeted expertise to assist in preparing the first draft of the ERIP that will be released on January 15, 2002. A public

outreach effort has also been developed and includes discussions with key groups representing environmental, labor, consumer, local government, utility, and minority interests.

The two-day work session, meetings with public interest groups and Legislative staff have resulted in a more focused approach to the plan. The CPA has been able to work with sister agencies from the CPUC, CEC, CAISO, CARB and many others to assist in gathering data and adding existing research to the ERIP.

THE ENERGY PROCUREMENT PROCESS

The CPA established screening criteria to review all projects that were submitted. This allowed staff to begin due diligence investigation of each project under an executed letter of intent (a non binding contract), which included an assessment of transmission interconnections, environmental permitting documents, engineering design and construction documents, and proof of site control.

During this process, the Power Authority worked with its sister agencies (CEC, CAISO, CDWR and PUC) to identify critical projects that offered power to local reliability strained areas and participated in regulatory proceedings to help facilitate development activities.

PROCUREMENT OF CENTRAL GRID RENEWABLES

The CPA has received 5,500 MW of renewable generation proposals and has begun due diligence on 2,389 MW through the LOI¹ process. The CPA has worked closely with the CDWR to develop a prioritized renewable project strategy. The CPA deemed the first round of energy procurement for renewables a clear success for both the industry and those who demand clean alternative solutions to powering the State.

Wind	1,845 MW
Geothermal	315 MW
Biofuel	200 MW
Biomass	144 MW
Landfill	29 MW

CONSERVATION AND DISTRIBUTED GENERATION

Distributed Generation

The CPA has continued to move aggressively in pursuing clean power by bringing decentralized technologies and distributed generation to the mix. In September, the CPA issued three requests for bids (RFB) for distributed generation systems; they include:

- ❑ Combined Heat and Power (CHP)
- ❑ Fuel Cells
- ❑ Decentralized Solar Technologies

¹ A Letter of Intent (LOI) is not a contract. It is a non-binding expression of interest on the part of the Authority and a potential power plant developer which initiates a due diligence process.

More than 80 potential bidders participated in the CPA's RFB Developers Conferences held in December to discuss issues and answer questions as to the procurement process. Bids will be due in January 2002.

Moving forward in parallel fashion to the RFB process is the continued coordination with other agencies and local governments to help identify State and local projects for installation of distributed generation systems. The CPA should begin awarding contracts for these technologies in the first quarter of 2002 as a first step toward installation of 200 MW of projects in public facilities.

Demand-Responsiveness

In addition to the distributed generation procurement, the CPA has also signed three LOIs for load management projects. These projects would provide dispatchable peak demand response in coordination with CAISO. The framework for these projects is under development and expected to be launched in the first quarter of 2002.

The CPA also released a request for proposals for real time metering in order to help finance meters for electric power customers; 11 proposals currently are being evaluated. The CPA is expected to award contracts for the real time meters and announce a program for their deployment in the first quarter of 2002.

Conservation

During September-October the CPA held extensive informal consultations to solicit ideas for conservation and solar financing. During November-December, staff collaborated with the CEC and CPUC on the best ways for the CPA to leverage its financial resources to complement existing state energy efficiency strategies and programs. This led to active development of possible financing mechanisms such as

- a "green credit card" or favorable credit terms for private-label credit cards at major home improvement sales outlets,
- augmenting the CEC's Energy Conservation Assistance Act loan program to local public agencies with additional capital,
- a possible home improvement loan program via contractors for larger-scale energy measures (e.g. cooling and solar systems, and efficient windows), and
- loans or leasing mechanisms for efficiency and solar measures on existing commercial buildings.

The CPA retained its financial advisor in early December and immediately commenced a review of the likely financing mechanisms, terms, and security and credit requirements to apply to these types of possible loans. An investigation also was launched of other critical program features and/or sponsors that would be necessary to ensure successful financing programs. A portfolio of recommended conservation and on-site renewable financing programs will be included in the January 15 draft ERIP.